

# **State of Alaska FY2003 Governor's Operating Budget**

## **Department of Transportation/Public Facilities Internal Review BRU/Component Budget Summary**

## **BRU/Component: Internal Review**

**(There is only one component in this BRU. To reduce duplicate information, we did not print a separate BRU section.)**

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### **Component Mission**

To provide professional audit assistance to Department management to insure compliance with Federal Highway Administration (FHWA) and Federal Aviation Administration (FAA) requirements and to provide independent assessments of Department operations.

### **Component Services Provided**

Internal Review is an independent section within the Department of Transportation and Public Facilities that reports directly to the Commissioner. Internal Review is an extension of the management function that identifies problems and recommends actions that can correct those problems. It provides a measurement of how well the Department is meeting its statutory requirements and achieving its objectives.

This section is responsible for:

- Reviews of operations and identifies control weaknesses, addresses systems improvements, ensures compliance, and makes recommendations for improvement in utilization of resources (efficiency, economy, and effectiveness).
- Pre-award audit evaluations and final (post performance) audits on firms under contract with the Department to assist in negotiating rates and insuring that only agreed upon rates and charges have been paid.
- Audits performed on utility companies, concessionaires at the State's airports, grantees, and contractor claims involving federal-aid to insure agreed upon rates were used, proper fees collected and that contractor claims were supportable.
- Internal audits on major federal and state programs and assists in special program reviews conducted by the FHWA and FAA.
- Assists the Division of Legislative Audit in the OMB Circular A-133 required Single Audit of Department operations.

### **Component Goals and Strategies**

To determine that Department programs are administered and controlled with maximum effectiveness and efficiency in accordance with existing statutes, regulations, policies and procedures and plans; and that contracts have been awarded and administered in compliance with federal and state laws and regulations.

- Conduct annual audits/reviews of consulting engineering firm's salary and overhead rates
- Conduct annual audits of utility companies to verify rates and charges
- Conduct internal reviews of Department operations to the extent feasible, given operating budget constraints
- Conduct audits of concessionaires at the Fairbanks and the Ted Stevens Anchorage International airports
- Assist the Division of Legislative Audit in the annual state single audit
- Conduct audits of contractor claims as requested

## Key Component Issues for FY2002 – 2003

A significant portion of the Internal Review's audit work is performed on the federal programs on specific projects. However, a portion of the audit work and associated operating costs is not eligible to be charged to the federal programs. The most cost-effective method of meeting audit requirements is to perform the audits in-house. It is important for the Internal Review Section to receive an adequate amount of general funds to continue audit functions not eligible for federal funds or overhead reimbursement.

It is essential for Internal Review to comply with the federal requirements of A-87. Therefore, Internal Review has shifted from direct charging to indirectly charging projects receiving audit services. This has been accomplished by budget adjustments submitted for fiscal year 2002 and brings the section into compliance with federal regulations.

## Major Component Accomplishments in 2001

- The Internal Review Section completed 51 consultant engineering overhead rate audits, 27 utility company rate audits, 18 cost allocation plan reviews, 15 concession audits, and 10 final audits to insure rates and other charges under contracts with the Department are supportable and meet federal requirements.
- Worked on several contractor claims and have assisted departmental staff and state attorneys in reducing claims on projects.
- Assisted the Division of Legislative Audit in performance of their annual single audit of the State, which completes the federal single audit requirements.

## Statutory and Regulatory Authority

The following Federal and State Regulations and Statutes apply in general to the establishment and operation of the Internal Review Section:

AS 44.17.010, 020, 040 (Dept authority to establish organization and staffing)

AS 36.30.420 (Right to audit records)

AS 35.05.050 (Cooperation with the federal government for construction of public works)

Alaska Procurement Code and the Department Professional Services Agreement (PSA) Manual

Memorandum of Agreement between Alaska DOT/PF and FHWA

CFR Title 23 Part 645 (Accounting standards for utility companies)

CFR Title 48 Part 31 (Contract Cost Principles)

OMB Circular A-133 on the Federal Single Audit

## Key Performance Measures for FY2003

### Measure:

The percentage of requested engineering firm audits and desk reviews completed in the previous fiscal year.  
Sec 141(b)(3) Ch 90 SLA 2001(HB 250)

### Alaska's Target & Progress:

Our target is to complete all audit requests in a timely manner and have no outstanding requests at year end. During fiscal year 2001 Internal Review received requests for and completed 51 engineering firm audits or desk reviews. Therefore, Internal Review is on track in addressing this performance measure as all audits requested have been completed.

**Benchmark Comparisons:**

There is no benchmark for the number of this type of audit to be performed by other states or departments.

**Background and Strategies:**

Audits of engineering firms are required to document accounting systems and overhead and salary rates to be used in negotiating professional services contracts with the Department and insure that federal eligibility requirements are met. These audits are generally requested by management during the negotiation process. If audits are not performed on a timely basis it will slow or hinder the approval of contracts which are essential for ongoing project work. Internal Review's strategy is to give these audit requests high priority to insure audit information is provided to management and staff negotiators as quickly as possible after the request for audit is received

## Internal Review

### Component Financial Summary

All dollars in thousands

	FY2001 Actuals	FY2002 Authorized	FY2003 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	555.4	658.1	675.0
72000 Travel	12.3	29.2	29.2
73000 Contractual	27.3	25.5	25.5
74000 Supplies	29.9	26.5	26.5
75000 Equipment	0.0	0.0	0.0
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>624.9</b>	<b>739.3</b>	<b>756.2</b>
<b>Funding Sources:</b>			
1003 General Fund Match	74.9	0.0	0.0
1004 General Fund Receipts	55.3	58.7	59.2
1027 International Airport Revenue Fund	64.5	65.1	66.8
1053 Investment Loss Trust Fund	1.9	0.0	0.0
1061 Capital Improvement Project Receipts	428.3	615.5	630.2
<b>Funding Totals</b>	<b>624.9</b>	<b>739.3</b>	<b>756.2</b>

### Estimated Revenue Collections

Description	Master Revenue Account	FY2001 Actuals	FY2002 Authorized	FY2002 Cash Estimate	FY2003 Governor	FY2004 Forecast
<b>Unrestricted Revenues</b>						
None.		0.0	0.0	0.0	0.0	0.0
<b>Unrestricted Total</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Restricted Revenues</b>						
Capital Improvement Project Receipts	51200	428.3	615.5	615.5	630.2	630.2
<b>Restricted Total</b>		<b>428.3</b>	<b>615.5</b>	<b>615.5</b>	<b>630.2</b>	<b>630.2</b>
<b>Total Estimated Revenues</b>		<b>428.3</b>	<b>615.5</b>	<b>615.5</b>	<b>630.2</b>	<b>630.2</b>

## Internal Review

## Proposed Changes in Levels of Service for FY2003

none

## Summary of Component Budget Changes

## From FY2002 Authorized to FY2003 Governor

*All dollars in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2002 Authorized</b>	<b>58.7</b>	<b>0.0</b>	<b>680.6</b>	<b>739.3</b>
<b>Adjustments which will continue current level of service:</b>				
-Year 3 Labor Costs - Net Change from FY2002	0.5	0.0	16.4	16.9
<b>FY2003 Governor</b>	<b>59.2</b>	<b>0.0</b>	<b>697.0</b>	<b>756.2</b>

## Internal Review

## Personal Services Information

Authorized Positions		Personal Services Costs		
	<u>FY2002</u>	<u>FY2003</u>		
	<u>Authorized</u>	<u>Governor</u>		
Full-time	9	9	Annual Salaries	504,363
Part-time	1	1	COLA	12,271
Nonpermanent	0	0	Premium Pay	0
			Annual Benefits	177,738
			<i>Less 2.79% Vacancy Factor</i>	(19,372)
			Lump Sum Premium Pay	0
<b>Totals</b>	<b>10</b>	<b>10</b>	<b>Total Personal Services</b>	<b>675,000</b>

## Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Administrative Clerk I	0	0	1	0	1
Internal Auditor I	0	0	1	0	1
Internal Auditor II	1	0	0	0	1
Internal Auditor III	3	1	0	0	4
Internal Auditor IV	1	0	0	0	1
Internal Auditor V	0	0	1	0	1
Statistical Technician I	1	0	0	0	1
<b>Totals</b>	<b>6</b>	<b>1</b>	<b>3</b>	<b>0</b>	<b>10</b>